

Thank you Chairman Nottingham. Good morning and welcome to our panelists and guests. As Chairman Nottingham has noted, over the past 15 months, we have undertaken a searching inquiry, through several rounds of evidence-gathering, to determine the best method for calculating the rail cost of capital -- especially the cost of equity capital. This hearing will be extremely influential in finalizing our proposed rules.

As I have noted previously, in reexamining our methods, we are fulfilling several Board mandates and policy objectives. One is to periodically review our cost accounting rules and make changes to those rules as required. Another is to ensure the availability of accurate cost information in regulatory proceedings. And yet another is to encourage honest and efficient management of railroads.

I am well aware that the approach we take in calculating the cost of capital not only determines our revenue adequacy calculation, but also impacts our rate cases, abandonments, and the Uniform Railroad Costing System, or URCS.

The ICC adopted our current calculation method, the single stage Discounted Cash Flow approach or DCF model, approximately 25 years ago. In our Notice of Proposed Rulemaking in this proceeding, we attempted to account for advances in finance theory over the past few decades, by proposing to shift to a Capital Asset Pricing Model.

Many parties now advocate -- as Chairman Nottingham noted --using both the CAPM method and a variant of the DCF method that would address some of the potential flaws in our current approach. Despite this movement among the parties toward consensus, important differences remain. I hope that today's proceeding will illuminate these remaining differences, provide suggestions to reconcile them, and ultimately lead us to a solution that will best reflect the true cost of capital for the railroads.

I am pleased that the various stakeholders appear to be reaching a level of common ground here. My goal in this matter has always been to ensure that we are using the most accurate and acceptable method of calculating the rail cost of capital. In that vein, I am eager to hear today's testimony and to engage in dialogue with our witnesses.